



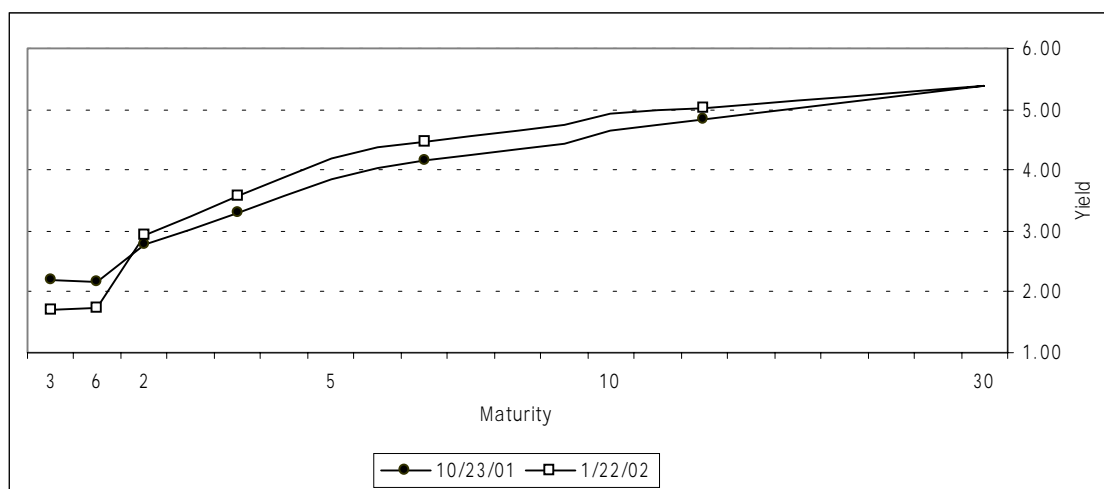
MICHAEL J. MURPHY
State Treasurer

Fourth Quarter 2001

The QUARTERLY

Local Government Investment Pool

Investors see steepening in yield curve



Historical Yield Curve
October 23, 2001 vs. January 22, 2002

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Is Greenspan done?

Every year seems to bring its share of unexpected events. Calendar year 2001 was no exception. In addition to the September 11 terrorist attacks, investors witnessed the most aggressive campaign undertaken by any of the major central banks in the battle to reverse the current global economic malaise. This refers, of course, to the Federal Reserve's eleven monetary easings, totaling 475 basis points (bp), bringing the Fed Funds rate to its lowest level in 40 years. It is obvious that the global situation is still stressed. For example, the Japanese NIKKEI began the 1990's at over 14 times the level of our Dow but was only 100 points above the Dow on December 26, 2001. European markets are faring only slightly better.

The question on everyone's mind is, what will the Fed do now? Is the U.S. economy now in a recovery mode? Although the best answer to these questions is "stay tuned" we can still look at incoming data to help clear the mud. We can see that while Q4 Gross Domestic Product (GDP) likely continued to contract at a pace roughly similar to that of Q3, there is growing evidence that the downward momentum in output was abating by year-end, particularly when compared to the severe plunge that followed the terrorist attacks. In addition, the non-manufacturing business index for the Institute for Supply Management (ISM), formerly known as National Association of Purchasing Management (NAPM), rose to 54.2 in December and 51.3 in November. Those are the first back-to-back readings above 50 since February – March, when the economy dipped into recession. An index reading above 50 signals expansion.

It is also encouraging that resilient consumer demand has allowed businesses to make rapid progress in liquidating excess inventories. For example, the fantastic consumer reaction to the zero-interest financing offered by motor vehicle manufacturers. In addition, although consumer demand for other

continued on page 2

Market summary

from page 1

goods over the holiday season was lackluster, it did not prove as disastrous as many retailers feared. Despite all this, consumers' psyches remain fragile and businesses' profit margins have been battered, making an economic recovery a slow, gradual process. We must not forget, however, the Fed comment at its December 11 meeting which said, "the risks remain weighted for conditions that generate economic weakness," thus leaving the door open for further monetary intervention.

Compared to our other updates throughout 2001, there has been relatively little Fed activity with only 75 bps in easings since our last update. Rising expectations of a near-term economic recovery, and the possible end to Fed funds rate cuts, have triggered a selloff in the Treasury market since mid-November. As a result, we have seen an impressive steepening of the yield curve outside of the one-year area, while the yield curve is fairly flat inside one-year. The current steep curve is quite a contrast to the inverted curve we saw just a year ago. Looking at yield changes along the curve, yields decreased by a slight 50 and 42 bp in the 3-month and 6-month sectors, while yields in the 2-, 5-, and 10-year sectors increased by 16, 35, and 28 bp, respectively, as shown in the Historical Yield Curve graph (see chart on page 1).

After the roller coaster we saw last quarter, both prior to and following the terrorist attacks, the stock markets have enjoyed some nice gains since our last update. The Dow dipped to 9,075 on Halloween, and hit its high on January 4 at 10,259. The Dow closed at 9,714 on January 22. Since our last update, the NASDAQ peaked at 2,059 on January 4 and dropped to a low of 1,667 on October 30. The NASDAQ closed at 1,883 on January 22.

The net return on the LGIP during the fourth quarter of 2001 ranged from 3.17 percent to 2.31 percent. Though this is the first time the LGIP rate has dipped below 3 percent, keep in mind the targeted fed funds rate, now at 1.75 percent, is a good benchmark with which to compare the LGIP. Contrary to past months, there have been investment opportunities providing positive carry, though these situations have been short-lived. While at this time the LGIP maintains a longer average life, we are ready to shift to a neutral bias upon indications of a stable Fed. With \$3 billion maturing within three months, the portfolio is positioned to provide adequate liquidity to LGIP participants and to take advantage of any cheapness in the yield curve.

Thank you TM\$ testers

We want to take this opportunity to send a special thanks to our two test groups who helped make TM\$ a successful system. Our first group joined us in the early stages of testing TM\$. They spent many hours testing and trying to "break" TM\$ in order to find bugs in the system. This same group continued into the parallel phase of testing which began on November 19. At that time, there was a second group of testers who joined in this parallel testing phase. This means that the testers were conducting their business online via TM\$ but were also calling the LGIP toll-free line to notify us of any transactions the "old fashioned way." This allowed us to compare our current Access database system and the TM\$ system to ensure accuracy.

Needless to say, the efforts of these testers played a huge role in the success of TM\$. The nine members of our test and parallel test group are:

Mary Dodge, Douglas County Treasurer
Lynn Hills, Port of Bremerton
Arif Kanji, Snohomish County
Duane Leonard, Snohomish County Housing
Carrie Lewellen, Clark County
Rick Patrick, City of Burlington
Shelley Pearson, Kitsap County
Chris Stricklin, Clark County
Mark Wyman, Snohomish County PUD

In addition, the thirteen members of our parallel-only test group are:

Laurie Anderson, City of Tukwila
Jim Block, Sound Transit
Colleen Bronson, City of Bellevue
Lisa Hands, City of University Place
Kathy Hough, Jefferson County
John Lowe, Clallam County Hospital District #2
Landy Manuel, City of Stanwood
Lynn Melton, State Board for Community and Technical Colleges
Susan Nagano, Seattle Housing Authority
Karen Rollins, City of Vancouver
Tracy Scully, Port of Grays Harbor
Cheryl Sieverkropp, Adams County
Kelley Wood, City of Redmond

Again, **THANK YOU**, to all members of the test groups. The Office of the State Treasurer could not have had the same level of success without your assistance!

LGIP Advisory Committee

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 Assn. of Washington Cities
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Chuck Greenough
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Kathy Turnbull
 San Juan County Treasurer
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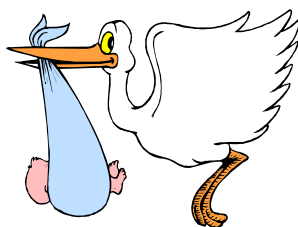
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EVENTS

The Investment Team is having ANOTHER baby!

Cristin Wilson, your LGIP Portfolio Manager, is also having a baby. She is due on March 22 and plans on taking three months for maternity leave.

Doug Extine, the Deputy Treasurer in charge of the OST Investment Program, will assume the LGIP Portfolio Manager role during the transition. Doug managed the LGIP Portfolio from 1990 until 1997, when he was promoted to managing the OST Investment Program.



Congratulations, Cristin! We wish you and your family the best. For baby updates, keep an eye on our web-site at www.wa.gov/tre/lgip.htm.

Welcome new LGIP participants

Help us in thanking and congratulating our new LGIP participants who have become members in the third quarter of 2001:

The Evergreen State College

Lake Washington Technical College

Advisory Committee holds last meeting of unusual year

The LGIP Advisory Committee met December 14. Treasurer Murphy introduced Paula Henderson from Sound Transit, who will serve on the committee as Hugh Simpson's replacement. Due to his busy schedule, Hugh suggested Paula be named to replace him for the remainder of his term.

OST gave a brief update on the net LGIP returns for January through October 2001. During that time, the LGIP has outperformed its benchmark by about 60 basis points (bp). Since March 2001 the LGIP yield has declined steadily, as a result of the dramatic decline of the fed funds rate. The LGIP began 2001 at around 6.25 percent and dropped to 2.62 percent in November, which is the first time the Pool has been below 3 percent (average fed funds in November were 2.10 percent).

OST believes the current easing cycle could be over, with the fed funds rate at 1.75 percent, although the possibility does exist that it could ease further. Currently, the average life of the Pool is about 60 days. No easing or tightening is anticipated, so it will probably continue to stay between 50-60 days. The Pool is at about \$5.3 billion now and should continue to stay around \$5 billion. The newest four-year college to join the LGIP was The Evergreen State College.

A review of the Fiscal Year 2002 budget was given. To date, the expenses are right on target. The Pool hit a record high of \$6 million in November. Higher LGIP balances have generated almost \$200,000 in fees over what was expected. Adjusting for actuals, the estimated rebate is now at \$928,952.

Treasurer Murphy gave a brief history of the custody problems OST has experienced with BONY since September 11. On September 16, OST suspended purchase of repurchase agreements (repos) and securities lending through BONY. The decision about when to resume repo and securities lending would be based on OST's confidence that both BONY and the settlement systems are functioning normally. In early December, OST met with senior staff at BONY to get detailed information on the status of their settlement operations. Based on their meeting, it was decided to approve resumption of deliverable repo on December 14, 2001. The decision to reopen OST's securities lending portfolio depends on more detailed reports from BONY.

A brief update on the TM\$ project was given. OST expressed appreciation to the testers for doing a great job. The date to go "live" is January 2, 2002, so parallel testing will still continue until that time. After January 2, entities will no longer need to make a telephone call to the Pool. Anyone who had access to the Web-client will have "view only" access unless OST has a new signed TM\$ logon authorization form on file.

Treasurer Murphy gave a brief update on the status of OST's relocation to the Sunset Life building. There have been some delays in getting the required permits and problems with the installation of the fiber optic cable, so the moving date is now scheduled for the first week in January.

It's a girl!

Tracie Kier, your LGIP Administrator, had a baby girl. Here are the details:

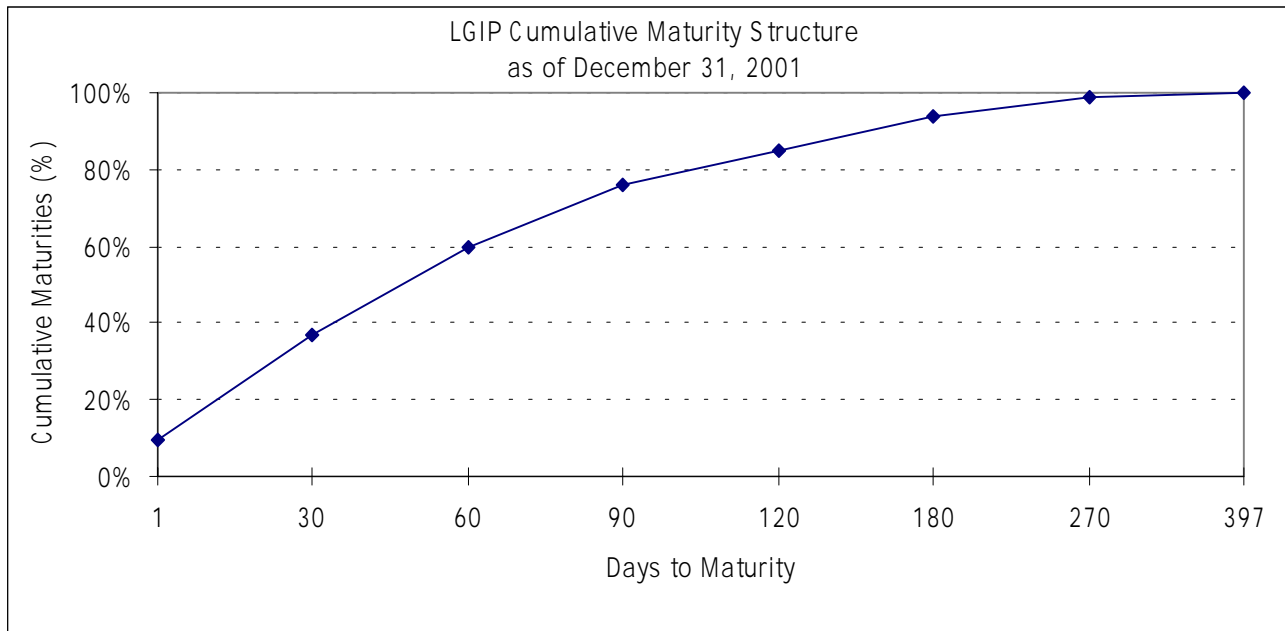
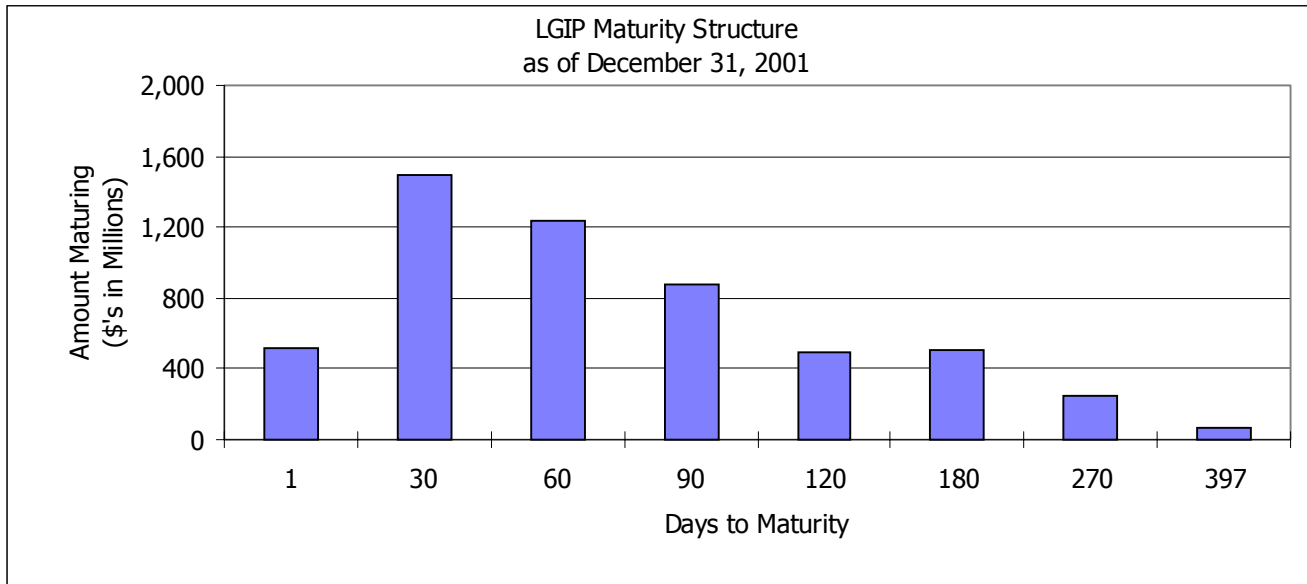
Baby's Name: Jamie Lynn
Birth Date: November 19, 2001
Birth Time: 2:56 a.m.
Weight: 7 pounds, 15 ounces

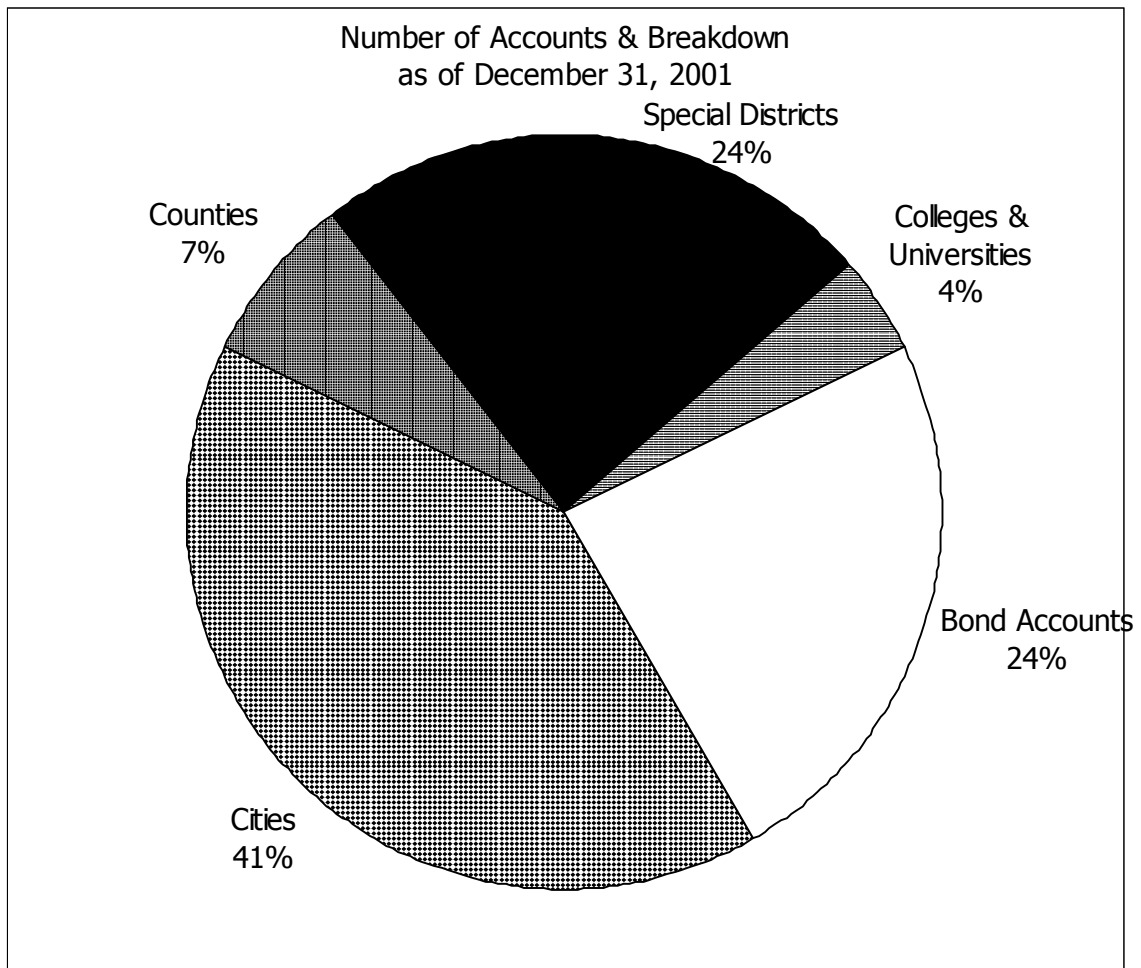
LGIP Holiday Schedule for 2002

The Local Government Investment Pool will be closed on the following days:

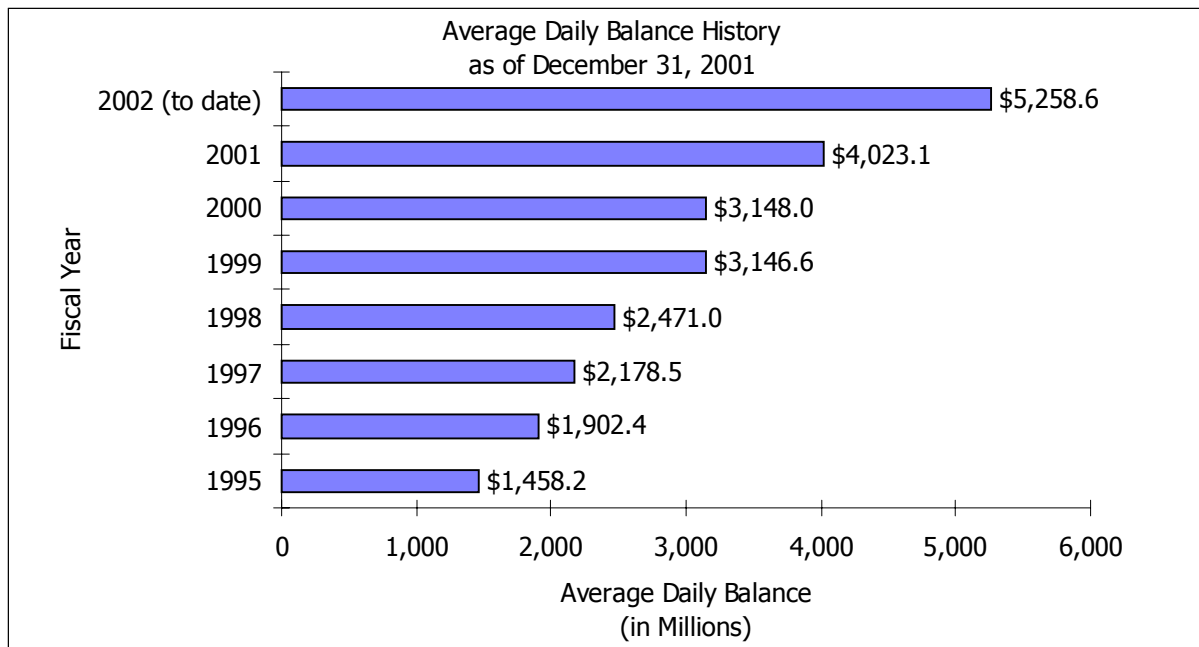
2002

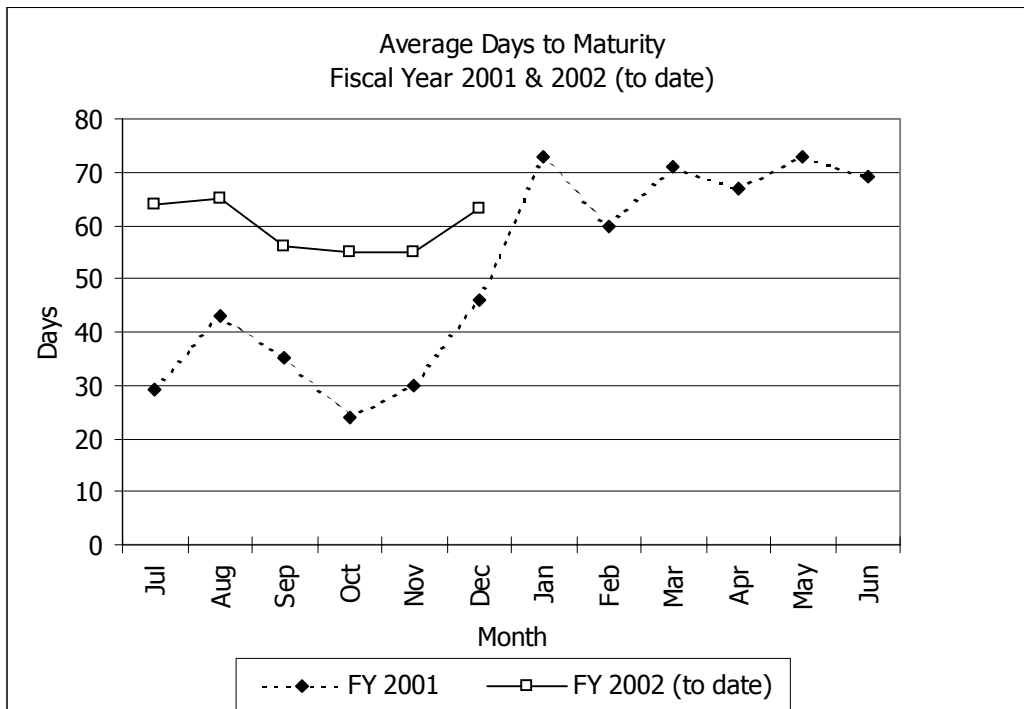
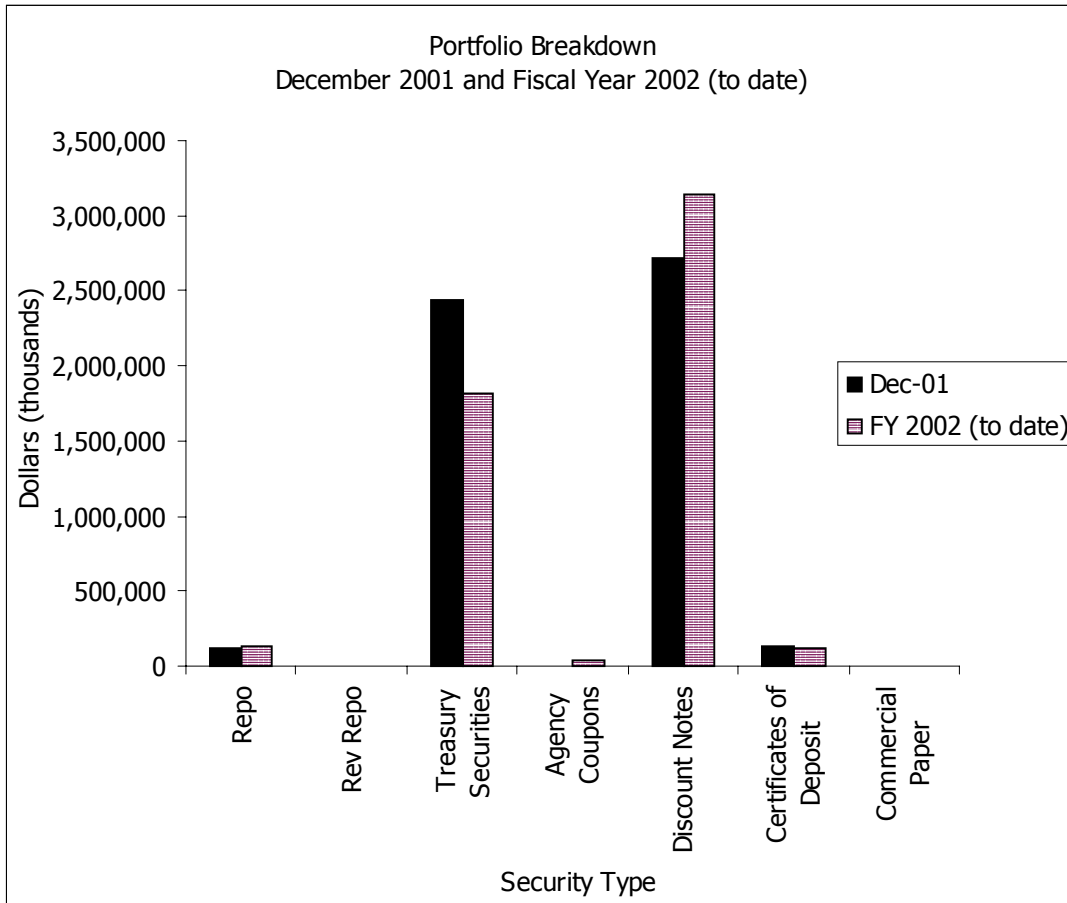
Monday	February 18	President's Day
Monday	May 27	Memorial Day
Thursday	July 4	Independence Day
Monday	September 2	Labor Day
Monday	October 14	Columbus Day
Monday	November 11	Veteran's Day
Thurs/Fri	November 28-29	Thanksgiving
Wednesday	December 25	Christmas Day





Total number of accounts: 537





TM\$ is ready for you!

At the WFOA conference in Wenatchee this September, we reviewed the transaction and administration functions of the enhanced Web Client, also known as the **Treasury Management System (TM\$)**. Since that time, staff at the Office of the State Treasurer have been busy getting this exciting system up and running for LGIP participants.

Well, the time has come. We are proud to announce that TM\$ became available for use by our LGIP participants on January 2, 2002. In addition to the view capabilities that were offered by the LGIP Web-Client, TM\$ also offers you, the participant, the ease and convenience of conducting LGIP transactions. TM\$ features include:

- Enter your transactions on-line; however, funds are still transferred via wire;
- Browse transactions previously entered;
- Ability to change transactions prior to cutoff, as long as it's within the parameters of the LGIP (e.g. no transactions greater than \$1 million after 9am and no transactions for same-day settlement after 10am);
- Enter transactions with future effective dates; and,
- Transaction versus view-only authority.

For those who would like to access TM\$, you must fill out a TM\$ Logon Authorization Form. If you already have done this, you're set. If not, please contact the LGIP at 1-800-331-3284. On the form, the box labeled "Full Access" is for authorization to both conduct transactions and view information, whereas the box for "View Only" allows you authorization to view information but not conduct transactions. Once completed, please mail the original back to the address at the bottom of the form. **Please note that only persons currently listed on the Transaction Authorization Form can be listed on the TM\$ Logon Authorization form with Full Access.**

Even if you have completed a Web Client Authorization form in the past but plan on using TM\$ for transactions, you must complete the new TM\$ Logon Authorization Form. If you do not complete a TM\$ Logon Authorization form, all parties currently listed on your Web Client Authorization form will be given View Only authorization.

You heard it here! User comments about TM\$.

"The system is very user friendly and the one problem that we had has been fixed. Thank you all. You guys are fantastic!" – Arif Kanji

"The new TM\$ streamlines transactions into and out of the LGIP. Account balances are easily accessed and transactions reports can now be printed out for your records. Also the new system is password protected for safety reasons. TM\$ is quick and easy! Kudos to Treasurer Murphy and his staff! – Rick Patrick

"TM\$ is easy to use and, though I enjoy talking with the LGIP personnel, ultimately TM\$ has increased the efficiency of my morning process." – Cheryl Sieverkropp

"I like the TM\$ System. It has been very easy to use. Smooth sailing from day one." – Kelley Wood

"TM\$ is user friendly and works fine. I like having the reports available anytime and not having to wait for a confirmation call when I would leave a message on voice mail. I highly recommend other participants using TM\$." - Mark Wyman

Washington State Local Government Investment Pool

Position and Compliance Report

as of December 31, 2001

(Settlement Date Basis)

LGIP Portfolio Holdings

	Cost	Percentage of Portfolio
Repurchase Agreements	\$ 475,000,000	8.74
U.S. Treasury Securities	2,396,753,612	44.08
U. S. Agency Bullets	.....	0.00
U.S. Agency Generic Floaters	.....	0.00
U.S. Agency Discount Notes	2,432,373,638	44.74
Certificates of Deposit	132,800,000	2.44
Bankers Acceptances	.....	0.00
Commercial Paper	.....	0.00
Reverse Repos	.....	0.00
* Total Excluding Securities Lending	\$ 5,436,927,250	100.00

Securities Lending Holdings

	Cost
Repurchase Agreements	\$ -
Banker's Acceptances	
Commercial paper	
Total Securities Lending	-

Total Investments & Certificates of Deposit

\$ 5,436,927,250

Policy Limitations

*The policy limitations include investment of cash collateral by a securities lending agent calculated as percentages of the portfolio holdings Total Excluding Securities Lending.**

<u>Size Limitations</u>	Holdings	Percentage of Portfolio	Policy Limitations Percentage
Certificates of Deposit	132,800,000	2.44	10%
Bankers Acceptances (BA)	0.00	20%
Commercial Paper (CP)	0.00	25%
Securities With Higher Volatility	0.00	10%
Repos Beyond 30 days	0.00	30%
Aggregate BA & CP Holdings	0.00	35%

Leverage (30% Total Limit)

Securities on Loan (dollars out on loan)	\$.....	
Reverse Repos	.....
Total Leverage	\$.....	0.00%

Maturity Limitations

	<u>Currently</u>	<u>Policy Limitations</u>
Portfolio Average Life	63 days	90 days
Maximum Maturity	319 days	397 days
Maximum Maturity of Repo	2 day(s)	180 days
Maximum Maturity of Reverse Repo	0 day(s)	90 days
Average Life of Reinvestment of Cash by Lending Agent	0 day(s)	14 days

Policy Limitations (Continued)

Repo Limits Per Dealer

	<u>December 31, 2001</u>	<u>Total Repo Percentage (20% limit)</u>	<u>Term Repo Percentage (10% limit)</u>	<u>Projected Redemptions 1/2/02</u>	<u>Projected Position 1/2/02</u>
Banc of America Securities LLC	\$.....	0%	0%		.....
Bank of New York	0%	0%		.....
Barclays Capital Markets	0%	0%		.....
Bear Stearns & Co.	0%	0%		.....
CS First Boston	0%	0%		.....
Chase Manhattan	0%	0%		.....
Daiwa Securities America Inc.	0%	0%		.....
Dresdner Securities USA	0%	0%		.....
Fuji Securities	0%	0%		.....
Greenwich Capital Markets Inc.	0%	0%		.....
Lehman Brothers Inc.	400,000,000	7%	0%	400,000,000	.....
Merrill Lynch & Co., Inc.	75,000,000	1%	0%	75,000,000	.....
Morgan Stanley	0%	0%		.....
Nesbitt Burns	0%	0%		.....
Nomura Securities Intl Incorporated	0%	0%		.....
Paribas Corporation	0%	0%		.....
Prudential Securities	0%	0%		.....
Salomon-Smith Barney	0%	0%		.....
UBS Warburg LLC	0%	0%		.....
Total	\$ 475,000,000			475,000,000	.....

Issuer Limitations

****** Commercial Paper

<u>Cost</u>	<u>Percentage (5% limit)</u>	<u>Rating (A1/P1 or Better)</u>
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There was no commercial paper holdings as of 12/31/2001.

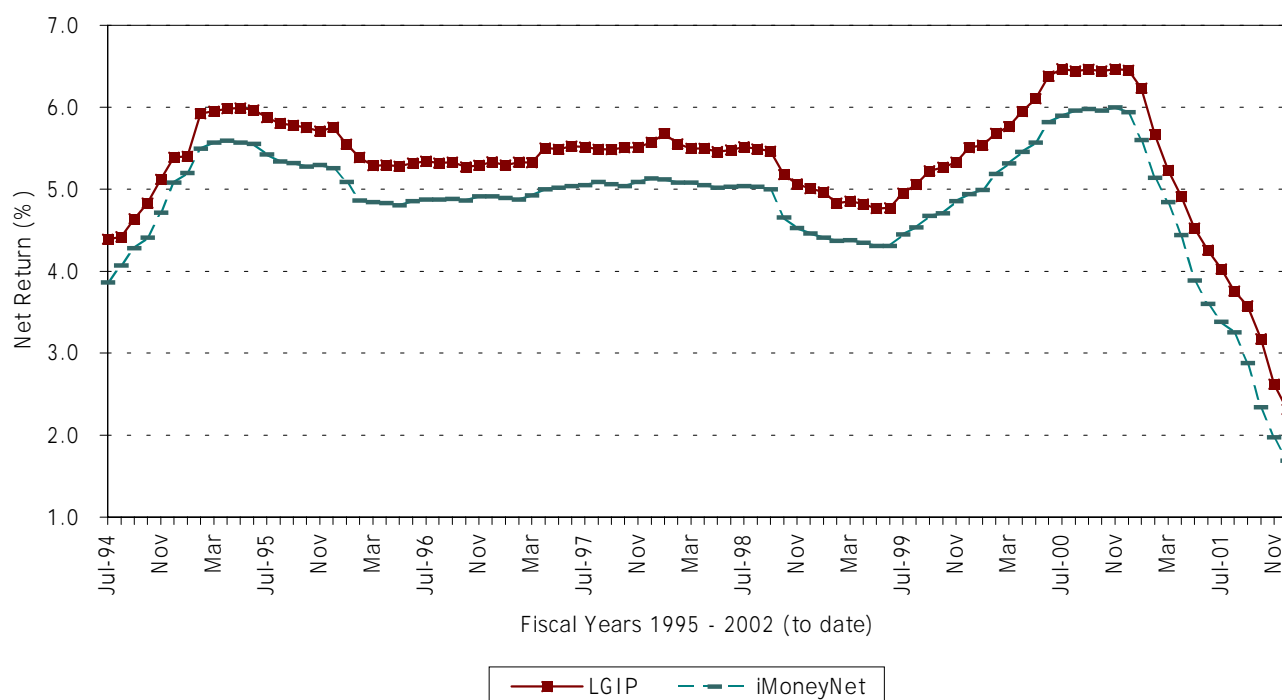
Banker's Acceptances

There was no banker's acceptance holdings as of 12/31/2001.

****** These are the limitations of the formal Investment policy. However, operating guidelines place limits of 3% per issuer.

LGIP Performance Comparison

**iMoneyNet, Inc., Government Only/Institutional Only
versus
Local Government Investment Pool**



Net Rate of Return Fiscal Years 1995 – 2002 (to date)

Average Net Rate of Return of Government Only/Institutional Only Money Market Funds, Money Market Insight, iMoneyNet, Inc., Westborough, MA.

NOTE: Rates are calculated on a 360-day basis.

The above comparison shows how the LGIP has performed relative to its benchmark since July 1994. This benchmark is the iMoneyNet, Inc., Government Only/Institutional Only Money Market Funds, which is comprised of privately managed money market funds similar in composition and investment guidelines to the LGIP.

The LGIP net rate of return has outperformed its benchmark since July 1994 by an average of 48.1 basis points. This translates into the LGIP earning \$100.63 million over what the average comparable private money fund would have generated.

Local Government Investment Pool

STATEMENT OF NET ASSETS

December 31, 2001

Assets

Investments, at amortized cost:	
Repurchase Agreements	475,000,000
U.S. Agency Discount Notes	2,432,373,638
U.S. Treasury securities	2,396,753,612
Total Investments (Trade Date Basis)	5,304,127,250
Certificates of Deposit	132,800,000
Cash	(15,470,988)
Interest receivable	3,895,891
Total Assets	5,425,352,152

Liabilities

Accrued expenses	41,164
Total Liabilities	41,164

Net Assets

\$ 5,425,310,989

Participant Net Asset Value, Price per Unit

\$ 1.00

Total Amortized Cost - Settlement Date Basis \$ 5,436,927,250

QUARTER AT A GLANCE

October 1, 2001 - December 31, 2001

Total investment purchases:	\$ 22,319,271,266
Total investment sales:	\$ 599,883,654
Total investment maturities:	\$ 21,586,431,000
Total net income:	\$ 38,343,724
Net of realized gains and losses:	\$ 210,872
Net Portfolio yield (360-day basis):	
	October 3.1738%
	November 2.6206%
	December 2.3114%
Average weighted days to maturity:	63 days

WASHINGTON STATE LOCAL GOVERNMENT INVESTMENT POOL
OFFICE OF THE STATE TREASURER
PO BOX 40200
OLYMPIA WA 98504-0200

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